

Message Text

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P R 161722Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9190
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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USEEC ALSO FOR EMBASSY
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DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD AUGUST 10-16

SUMMARY: IN A CHAOTIC WEEK ON THE FOREIGN EXCHANGE, STER-
LING MOVED TEMPORARILY ABOVE THE \$2.00 LEVEL. ECONOMIC
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INDICATORS GENERALLY REFLECTED A STRENGTHENING IN THE
PACE OF ACTIVITY. INDUSTRIAL PRODUCTION ROSE IN JUNE
WHILE AVERAGE EARNINGS WERE UP SHARPLY. RETAIL SALES
STRENGTHENED SUBSTANTIALLY IN JULY WHILE THE CENTRAL
GOVERNMENT RECORDED A SEASONAL SURPLUS IN ITS TRANSACTIONS
ACCORDING TO THE NATIONAL INSTITUTE OF ECONOMIC AND
SOCIAL RESEARCH (NIESR) CURRENT GROWTH LEVELS OF ECONOMIC

ACTIVITY ARE UNLIKELY TO PERSIST MUCH BEYOND THE END OF 1978. THE TROUBLED U.K. SUBSIDIARY OF THE CHRYSLER CORPORATION WAS THE OBJECT OF A PURCHASE OFFER FROM PEUGEOT-CITROEN. IN THE FINANCIAL MARKETS, THE BANK OF ENGLAND RELEASED ADDITIONAL SPECIAL DEPOSITS WHICH SHOULD AMELIORATE THE PRESSURE OF THE CORSET ON THE CLEARING BANKS. END SUMMARY.

1. CENTRAL GOVERNMENT FINANCIAL TRANSACTIONS.

CENTRAL GOVERNMENT ACCOUNTS WERE IN SURPLUS IN JULY THOUGH THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR) FOR THE FIRST FOUR MONTHS OF FY 78/79 WAS 2.5 BILLION POUNDS. THE FOLLOWING TABLE SUMMARIZES THE LATEST DATA:

1978-79

BUDGET 1 APR - 31 JULY JULY

CONSOLIDATED FUND FORECAST 1977 1978 1977 1978

REVENUE 42,746 12,512 13,671 3,803 4,212

EXPENDITURE 51,378 13,862 16,391 3,595 4,340

DEFICIT -8,632 -1,350 -2,720 208 - 128

NATIONAL LOANS FUND (1)

CONSOLIDATED FUND DEFICIT

(AS ABOVE) -8,632 -1,350 -2,720 208 - 128

OTHER TRANSACTIONS:

RECEIPTS 6,400 1,672 2,023 578 821

PAYMENTS -7,640 -2,330 -2,058 - 664 - 614

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TOTAL NET BORROWING BY THE NATIONAL

LOANS FUND -9,872 -2,008 -2,755 122 79

OTHER FUNDS AND

ACCOUNTS 1,935 483 249 91 2

CENTRAL GOVERNMENT BORROWING

REQUIREMENT -7,937 1,525 -2,506 213 81

(1) - EXCLUDING NATIONAL DEBT AND OTHER TRANSACTIONS CONCERNED WITH THE FINANCING OF THE BORROWING REQUIREMENT.

CONSOLIDATED FUND REVENUES WERE 10.8 PERCENT HIGHER IN JULY 1978 THAN THEY WERE A YEAR EARLIER. THIS IS MORE OR LESS IN LINE WITH THE BUDGETED FIGURE OF 10.2 PERCENT. EXPENDITURE WAS UP 20.7 PERCENT IN JULY COMPARED WITH A BUDGETED INCREASE OF 16.8 PERCENT.

DURING THE FIRST 4 MONTHS OF THE FISCAL YEAR THE GAP BETWEEN CONSOLIDATED REVENUES AND REVENUES WIDENED TO 2.72 BILLION POUNDS FROM 1.35 BILLION IN THE SAME PERIOD OF FY 77/78. THIS WAS OFFSET BY A 351 MILLION POUND INCREASE IN NATIONAL LOANS FUND RECEIPTS AND A 272 MILLION POUND DECLINE IN NATIONAL LOANS FUND PAYMENTS. NATIONALIZED INDUSTRIES INCREASED THEIR NET BORROWING FROM THE NATIONAL LOANS FUND SO FAR THIS FISCAL YEAR BUT THIS HAS

BEEN OFFSET BY REDUCED BORROWING BY LOCAL GOVERNMENT AND

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A REPAYMENT OF A LOAN TO THE NATIONAL ENTERPRISE BOARD.
THE FIGURES SEEM GENERALLY CONSISTENT WITH THE GOVERN-
MENT'S OVERALL FY 78/79 PUBLIC SECTOR BORROWING TARGET
OF 8.5 BILLION POUNDS.

2. INDUSTRIAL PRODUCTION.

THERE WAS A REBOUND IN INDUSTRIAL PRODUCTION IN JULY.
THE OVERALL INDEX OF INDUSTRIAL PRODUCTION ROSE BY 0.9
PERCENT WHILE THE SLIGHTLY NARROWER INDEX OF MANUFACTUR-
ING PRODUCTION ROSE 1.4 PERCENT. THE FOLLOWING TABLE SUM-
MARIZES THE MOST RECENT DATA. IT IS MORE EXTENSIVE THAN
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USUAL SINCE THE JUNE PRESS RELEASE CONTAINS MANY REVISIONS.

1970 EQUALS 100				
P/C CHANGE		P/C CHANGE		
ALL	FROM 12 MOS.	FROM 12 MOS.	FROM 12 MOS.	
INDUSTRIES	EARLIER	INDUSTRIES	EARLIER	
1977-III	103.0	2.1	104.0	0.6
IV	102.4	-0.5	103.4	-1.2
1978-I	103.5	0.3	103.9	-1.3
II	104.3	2.4	104.8	1.7
1977 JUNE	100.4	-1.1	100.8	-1.5
JULY	103.1	1.6	104.6	1.1
AUG	103.0	2.1	103.8	1.1
SEPT	102.8	0.8	103.7	-0.2
OCT	102.1	-0.3	103.1	-1.3
NOV	102.0	-1.0	102.7	-1.8
DEC	103.1	-0.1	104.4	0.3
1978 JAN	103.2	-0.1	103.5	-1.5
FEB	103.7	0.5	103.7	-1.6
MAR	103.5	0.4	104.4	-1.0
APR	105.4	3.1	105.8	2.2
MAY	103.3	0.0	103.6	-1.1
JUNE	104.2	3.9	105.0	4.4

THE JUNE FIGURES REPRESENT A RECOVERY FROM DOWNWARD REVISED MAY LEVELS. SINCE THERE WAS A NEW PUBLIC HOLIDAY IN MAY, THE SEASONAL ADJUSTMENT FACTOR USED FOR THAT MONTH PROVIDES A DISTORTED PICTURE. COMPARING SECOND QUARTER INDUSTRIAL AND MANUFACTURING PRODUCTION WITH THE FIRST QUARTER PROVIDES A LESS-BIASED INDICATION OF RECENT TRENDS. ON THAT BASIS THERE WAS AN 0.8 PERCENT RISE IN INDUSTRIAL PRODUCTION WITH AN 0.9 PERCENT INCREASE IN MANUFACTURING PRODUCTION. CHEMICALS (UP 2.0 PERCENT), METAL MANUFACTURE (UP 7.3 PERCENT), AND

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MINING AND QUARRYING (UP 3.1 PERCENT) WERE RESPONSIBLE FOR THIS RISE. THE OUTPUT OF OTHER SECTORS INCLUDING THE LARGE ENGINEERING AND ALLIED INDUSTRY SECTOR SHOWED LITTLE CHANGE BETWEEN THE TWO QUARTERS. ON A MARKET SECTOR BASIS, CONSUMER GOODS PRODUCTION ROSE 0.3 PERCENT, INVESTMENT GOODS PRODUCTION FELL 0.3 PERCENT, AND INTERMEDIATE GOODS OUTPUT ROSE 2.2 PERCENT BETWEEN THE FIRST TWO QUARTERS OF 1978. THE ALL-INDUSTRIES OTHER THAN CONSTRUCTION INDEX STOOD AT 107.5 IN JUNE, A CHANGE OF 1.0 PERCENT FROM THE REVISED MAY FIGURE OF 106.4

THE MOST OBVIOUS CONCLUSION TO BE DRAWN FROM THESE FIGURES IS THAT CONSUMER GOODS OUTPUT HAS FAILED TO KEEP PACE WITH THE RISE IN RETAIL SALES VOLUME THAT HAS OCCURRED DURING THE YEAR. THE WEAK PERFORMANCE OF INVESTMENT GOODS INDUSTRIES BELIES SURVEY DATA WHICH PERSISTENTLY INDICATE MORE BUOYANT INVESTMENT INTENTIONS.

3. RETAIL SALES VOLUME.

THERE WAS A SHARP INCREASE IN RETAIL SALES VOLUME IN JULY. THE INDEX OF RETAIL SALES VOLUME (1971 EQUALS 100) WAS PROVISIONALLY ESTIMATED AT 110.5, A RISE OF 1.8 PERCENT FROM THE FINAL MAY FIGURE OF 108.6. RETAIL SALES VOLUME APPEARS TO HAVE RISEN BY ABOUT 2.2 PERCENT IN THE LATEST THREE-MONTH PERIOD CONTINUING TO REFLECT HIGHER DISPOSABLE INCOMES BOOSTED BY TAX REBATES AND HIGHER EARNINGS. THE PROVISIONAL JULY FIGURE IS 5.4 PERCENT ABOVE THAT OF JULY 1977.

4. THE CURRENT ACCOUNT IS ESTIMATED TO HAVE BEEN 30 MILLION POUNDS IN DEFICIT IN JULY. (SEE LONDON 12996.) THIS RESULT IS BELOW EXPECTATIONS EXPRESSED IN FINANCIAL MARKETS AND THE PRESS.

5. PEUGEOT-CHRYSLER DEAL.

THE FRENCH-BASED PEUGEOT-CITROEN AUTOMOTIVE CONCERN
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HAS REACHED AGREEMENT WITH CHRYSLER (U.S.) TO PURCHASE THE LATTER'S EUROPEAN ASSETS AND LIABILITIES. THE TERMS OF THE SALE INVOLVE A CASH PAYMENT OF \$230 MILLION AND THE TRANSFER OF A 15 PERCENT EQUITY INTEREST IN PEUGEOT-

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P R 161722Z AUG 78

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TO SECSTATE WASHDC PRIORITY 9192

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CITROEN TO CHRYSLER. WITH PRODUCTION FACILITIES IN FRANCE, SPAIN AND THE U.K. INVOLVED, CONSUMMATION OF THE DEAL IS CONTINGENT ON GOVERNMENT APPROVAL IN EACH OF THE THREE CONCERNED COUNTRIES. IN THE U.K. THE DEPARTMENT OF INDUSTRY HAS LAUNCHED AN INTENSIVE STUDY OF THE PROPOSED SALE WITH NO FINAL WORD EXPECTED BEFORE MID-SEPTEMBER. MORE DETAILED ANALYSIS WILL FOLLOW IN A SEPARATE MESSAGE.

6. THE LATEST FORECASTS FROM THE NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH (NIESR) UPDATE BUT MILDLY THE PREVIOUS FORECASTS MADE IN MAY, TO CONCENTRATE ON LARGER UNCLASSIFIED

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SCALE EXAMINATIONS OF SPECIAL PROBLEMS IN THE U.K. ECONOMY. THE LARGEST CHANGE IS IN THE CURRENT ACCOUNT FORECAST, WHERE A 1978 SURPLUS OF 0.3 BILLION POUNDS HAS BEEN RAISED TO 0.6 BILLION POUNDS IN THE LATEST PUBLICATION, AND A 1979 SURPLUS OF 1.0 BILLION POUNDS HAS BEEN RAISED TO 1.9 BILLION POUNDS. A SUMMARY OF THE MOST RECENT FORECAST IS:

1977 1978 1979

REAL GDP (PERCENT CHANGE, YEAR/YEAR) 1.0 3.0 2.2

REAL PERSONAL DISPOSABLE INCOME (PER-

CENT CHANGE, YEAR/YEAR) -1.4 5.1 1.6

UNEMPLOYMENT (4TH QUARTER, MILLION) 1.4 1.3 1.5

MONEY SUPPLY (PERCENT CHANGE IN

STERLING M3, FISCAL YEARS) 15.0 11.0 11.0

CONSUMER PRICES (PERCENT CHANGE,

YEAR/YEAR) 14.2 9.3 11.2

CURRENT ACCOUNT BALANCE (YEAR,
POUNDS BILLION) 0.2 0.6 1.9
PUBLIC SECTOR BORROWING REQUIRE-
MENT (FISCAL YEAR, POUNDS
BILLION) 5.6 8.1 8.4

NIESR TAKES AN INCREASE OF 12 PERCENT IN AVERAGE EARN-
INGS AS EXOGENOUSLY GIVEN. FROM THIS AND A GRADUAL DEPRE-
CIATION IN THE EXCHANGE RATE, AN 11 PERCENT INFLATION
RATE IS FORECAST BY THE END OF 1979. BY THE END OF 1979
REAL GDP GROWTH IS EXPECTED TO FALL BACK TO 1/2 PERCENT
AND UNEMPLOYMENT TO RISE TO 1.5 MILLION.

NIESR, VIEWING THE FORECAST FALL IN THE GROWTH OF
OUTPUT, CALLS FOR A SIGNIFICANT MEASURE OF REFLATION.
THE CURRENT ACCOUNT SURPLUS, IT IS SUGGESTED, GIVES SOME
MARGIN OF SAFETY FROM BALANCE OF PAYMENTS CONSTRAINTS IN
CARRYING OUT SUCH REFLATION. IN ANY EVENT, A DEPRECIATING
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EXCHANGE RATE COULD BE OF SOME HELP IN REFLATING IF THE
GOVERNMENT'S "PAY POLICY IS FIRMLY APPLIED." FINANCIAL
TARGETS, CONSEQUENTIALLY, FOR THE 1979-80 FINANCIAL YEAR
OUGHT TO BE SET "FAIRLY GENEROUSLY" SO AS TO AVOID RE-
STRICTING FISCAL POLICY.

THE LONGER TERM PROBLEMS OF SIMULTANEOUSLY ACHIEVING
HIGH EMPLOYMENT AND BALANCE OF PAYMENTS EQUILIBRIUM ARE
DISCUSSED BUT NO CONCLUSIONS OFFERED. THEY DO SEE CER-
TAIN PROBLEMS THAT MIGHT ARISE FROM SOME FORMS OF THE
BREMEN PROPOSALS, HOWEVER. "THUS, WHILE WE ARE SCEPTICAL
ABOUT THE POSSIBILITY OF RECONCILING THE AIMS OF INTERNAL
AND EXTERNAL EQUILIBRIUM IN THE LONG RUN, SOLELY THROUGH
THE MEDIUM OF FLEXIBLE EXCHANGE RATES, IT SEEMS TO US
THAT THE PROBLEMS COULD WELL BE EXACERBATED BY A RETURN
TO THE RIGIDITY OR SEMI-RIGIDITY OF A EUROPEAN SNAKE WITH
ONLY A DUBIOUS PROSPECT OF THIS HAVING A POWERFUL EFFECT
ON INFLATION. CERTAINLY, EXCHANGE RATE REFORM IS NOT A
SUBSTITUTE FOR DOMESTIC ANTI-INFLATIONARY POLICY."

7. THE BANK OF ENGLAND ANNOUNCED THAT ABOUT 207 MILLION
POUNDS IN SPECIAL DEPOSITS WOULD BE RELEASED AUGUST 14 TO
THE LONDON AND SCOTTISH CLEARING BANKS. THE BANK STRESSED
THAT THIS WAS A SPECIAL MEASURE WHICH DID NOT REPRESENT
A CHANGE IN POLICY. THE MEASURE FOLLOWS FROM AN UNDER-
TAKING IN DECEMBER 1976 TO REDUCE THE LEVEL OF GOVERNMENT
REFINANCED EXPORT CREDIT. AT THAT TIME IT WAS STIPULATED
THAT IF THE INCREASED FINANCE TAKEN ON THE BOOKS OF THE
CLEARERS SHOULD PREJUDICE THE CLEARERS' POSITION IN RE-
LATION TO THE CORSET OR THE SUPPLEMENTARY SPECIAL DEPOS-
ITS SCHEME, THEN SPECIAL DEPOSITS WOULD BE RELEASED. IT
IS CONTENDED THAT THE CLEARERS INCREASED THEIR INTERBANK

BORROWING, AND HENCE THE LEVEL OF THEIR INTEREST-BEARING
ELIGIBLE LIABILITIES, TO FINANCE THE HIGHER LEVEL OF EX-
PORT CREDIT.

THE PRESS AND MARKET SOURCES SPECULATED THAT FROM WHAT
EVER CAUSE, THE INJECTION OF SPECIAL DEPOSITS WOULD EN-
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ABLE SHORT-TERM INTEREST RATES TO CONTINUE TO DECLINE.

8. AVERAGE EARNINGS.

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AVERAGE EARNINGS ROSE SHARPLY IN JUNE. THE NEW AND YET TO BE SEASONALLY ADJUSTED INDEX ROSE 2.9 PERCENT WHILE THE OLDER, NARROWER INDEX ROSE 2.0 PERCENT FROM THEIR REVISED MAY LEVELS. THE FOLLOWING TABLE SUMMARIZES THE LATEST DATA:

	NEW INDEX (JAN 1976 EQUALS 100)	PERCENT CHANGE FROM 12 MOS. EARLIER	OLD(S.A.) INDEX (JAN 1970 EQUALS 100)	PERCENT CHANGE FROM 12 MOS. EARLIER
1977 AUG.	115.7	7.3	287.7	8.0
SEPT.	116.6	7.7	291.1	9.1

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OCT.	117.9	8.7	295.8	9.6
NOV.	120.1	8.6	300.5	10.3
DEC.	121.7	9.4	304.8	10.6
1978 JAN.	121.5	9.5	306.3	10.2
FEB.	122.7	10.5	311.2	11.5
MAR.	125.0	10.4	314.8	11.2
APR.	127.2	12.4	325.7	14.8
MAY R	129.4	12.6	327.2	14.5
JUNE P	133.1	15.3	333.8	16.5

R - REVISED; P - PROVISIONAL

IN A PRESS RELEASE ACCOMPANYING THE EARNINGS FIGURES, GOVERNMENT ECONOMISTS STATED THAT "OVER 1 PERCENT" OF THE JUNE INCREASE WAS ATTRIBUTABLE TO BACK-DATED PAY SETTLEMENTS. WHEN ADJUSTMENTS WERE MADE FOR THIS DISTORTION THE PRESS RELEASE INDICATED THAT THE 12-MONTH INCREASE IN THE NEW INDEX WOULD BE ABOUT 14.3 PERCENT WHILE THE RISE IN EARNINGS DURING THE FIRST 11 MONTHS OF THE CURRENT PAY ROUND (PHASE III) WOULD BE 13.3 PERCENT, A FIGURE CONSISTENT WITH THE GOVERNMENT'S STATED VIEW OF A 14 PERCENT RISE FOR THE PAY ROUND.

THE SORT OF ADJUSTMENTS ALLUDED TO IN THE PRESS RELEASE MAY BE JUSTIFIABLE IN THE SENSE THAT A PAY INCREASE MADE IN JUNE AND BACKDATED TO DECEMBER WOULD HAVE SIX TIMES THE IMPACT ON A MONTH-TO-MONTH COMPARISON THAN ONE RECEIVED ON THE NORMAL SETTLEMENT DATE.

THERE IS ANOTHER FACTOR COMPLICATING THE MEASUREMENT OF THE PHASE III PAY RISE. THIS RELATES TO THE DELAY IN SOME PHASE II SETTLEMENTS INTO THE EARLY MONTHS OF PHASE III AS SOME GROUPS WAITED TO SEE WHETHER A THIRD YEAR OF INCOMES POLICY WOULD MATERIALIZE. THUS THERE WILL BE GROUPS SCHEDULED TO SETTLE IN JULY WHO ARE LIKELY TO RECEIVE TWO PAY INCREASES IN LESS THAN 12 MONTHS. TO THE EXTENT THIS IS SIGNIFICANT, THE EARNINGS RISE FOR PHASE II

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WAS SMALLER THAN IT SHOULD HAVE BEEN WHILE THE RISE FOR PHASE III WILL BE LARGER. THAT SAID, THE OVERALL EFFECT OF BACKDATED PAY SETTLEMENTS IS TO INCREASE OVERALL EARNINGS IN 1978 BEYOND THE LEVEL ORIGINALLY ANTICIPATED.

9. THE GILT MARKET ADVANCED QUIETLY THROUGH THE WEEK. MARKET SOURCES INDICATE THAT THE DISAPPOINTING JULY TRADE FIGURES DID NOT UPSET THE MARKET ALTHOUGH IT CONVINCED IT THAT THE MINIMUM LENDING RATE (MLR) WOULD NOT FALL FOR SEVERAL WEEKS. (MLR IS CURRENTLY 10 PERCENT, IN CONTRAST TO A 9-1/2 PERCENT LEVEL IMPLIED BY THE DISUSED MARKET-RELATED FORMULA.) THE MARKET IS REPORTED TO HAVE NIBBLED AT THE TAP STOCKS ALTHOUGH THERE HAVE BEEN NO SUBSTANTIAL SALES.

10. PERHAPS THE MOST INTERESTING DEVELOPMENTS OF THE WEEK WERE THE MOVEMENTS IN THE FOREIGN EXCHANGE MARKETS, PARTICULARLY THOSE OF THE DOLLAR. THE MARKET DID NOT APPEAR TO BE APPRECIABLY AFFECTED BY NEWS ANNOUNCEMENTS, BUT DEVELOPED ITS OWN MOMENTUM SO THAT THE RETURNS ON CAPITAL AND COMMERCIAL TRANSACTIONS WERE DOMINATED BY PROSPECTIVE MOVEMENTS IN THE EXCHANGE RATE. ON THURSDAY AND FRIDAY MARKET SOURCES IN THE FACE OF A STRONG RISE IN THE DM (WITH THE YEN ON THE SIDELINES) COMMENTED THAT IT APPEARED AS THOUGH FIRST ONE CURRENCY WOULD STRENGTHEN AGAINST THE DOLLAR THEN ANOTHER WOULD FOLLOW TO RESTORE THE CROSS RATE, RATCHETING THE DOLLAR DOWNWARDS.

BY MONDAY AND TUESDAY THE RATCHETING WAS TRANSFORMED INTO A GENERAL SLIDE OF THE DOLLAR. EARLY TUESDAY MORNIN- THE POUND HAD REACHED 2.0023, THE DM 1.9178 AND THE SWISS FRANC 1.5560. MARKET SOURCES DESCRIBE CONDITIONS AS TURBULENT -- ONE SIMPLY SAID "A BLOODY MESS." IT WAS REPORTEDLY POSSIBLE TO MAKE MONEY ON ALMOST SIMULTANEOUS TRANSACTIONS, RATES CHANGING TOO RAPIDLY TO ARBITRAGE BETWEEN BROKERS. THE VOLUME OF TRANSACTIONS WAS NOT EXCEPTIONALLY LARGE WITH A SHORT TRADING WEEK ON THE CONTI-

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NENT, BUT THE NUMBER OF TRANSACTIONS WAS. ONE WELL PLACED SOURCE SAID, "THIRTY YEARS' EXPERIENCE SEEMS TO COUNT FOR NOTHING. THERE MAY BE NO BOTTOM."

SOURCES AGREED THAT FUNDAMENTAL ECONOMIC CONDITIONS

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IN THE U.S. WERE NOT PERCEIVED ANY DIFFERENTLY THIS WEEK
THAN DURING THE PAST FEW MONTHS (ALTHOUGH THERE ARE THOSE
WHO THINK THE FUNDAMENTALS LOOK RATHER DISMAL) AND SOME
THOUGHT THE DOLLAR GROSSLY UNDERVALUED. BUT THOSE WHO A
MONTH AGO HAD EXPANDED THEIR DOLLAR HOLDINGS HAD LOST
MONEY, AND FELT COMPELLED AT A MINIMUM TO TAKE THE SMALL-
EST POSSIBLE DOLLAR EXPOSURE. THE PRESSURE ON THE DOL-
LAR WAS NOT, HOWEVER, FROM INTERBANK ACTIVITY ALONE. IT
HAS BEEN SUGGESTED THAT THERE MUST BE SUBSTANTIAL MOVE-
MENTS IN LEADS AND LAGS AS COMMERCIAL TRANSACTORS ACT TO
PROTECT THEIR POSITIONS.

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ON TUESDAY AFTERNOON AND WEDNESDAY, THE DOLLAR
FIRMED IN THE FACE OF WIDESPREAD PROFIT-TAKING.
TRADING HOWEVER WAS NERVOUS AND THIN. LATE WEDNESDAY

TRADING AGAIN BECAME UNSETTLED, BUT AN INCIPIENT DOLLAR DECLINE WAS REVERSED AFTER PRESIDENT CARTER'S ANNOUNCEMENT OF A STUDY OF FOREIGN EXCHANGE CONDITIONS BY SECRETARY BLUMENTHAL AND CHAIRMAN MILLER.

STERLING WAS ACTIVE BUT NOT THE FOCUS OF ATTENTION THIS WEEK. THE MOST PROMINENT ACTIVITY OCCURRED IN THE FORWARD MARKET WHERE THE FORWARD DISCOUNT ON STERLING NARROWED SHARPLY AFTER THE ANNOUNCEMENT OF FURTHER RELEASES OF SPECIAL DEPOSITS. THIS MAY HAVE RESULTED FROM A NARROWING OF EXPECTED INTEREST RATE DIFFERENTIALS BETWEEN THE U.K. AND OTHER CAPITAL MARKETS.

SPOT STERLING TOOK A MIDDLE GROUND. OVER THE WEEK THROUGH TUESDAY, IT GAINED AGAINST THE DOLLAR, LOST AGAINST THE FRENCH AND SWISS FRANCS AND WAS BASICALLY UNCHANGED AGAINST THE DM AND YEN. ON WEDNESDAY THERE APPEARED TO BE MORE PROFIT-TAKING IN STERLING THAN IN OTHER CURRENCIES AND ITS CROSS RATES EASED GENERALLY.

11. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC. 1971 EQUALS 100)	GOLD (\$)
8/9	1.9490	62.4	207-1/8
8/10	1.9530	62.4	207-5/8
8/11	1.9640	62.6	211-1/8
8/14	1.9810	62.7	214-5/8
8/15	1.9750	62.7	213-3/8
CHANGE 8/8-8/15 UP 0.0410 UP 0.6 UP 6-1/2			

12. FORWARD PREMIUM ON STERLING

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DATE	1 MONTH	3 MONTHS	6 MONTHS
8/9	- 0.90	- 1.90	- 3.20
8/10	- 0.62	- 1.45	- 2.55
8/11	- 0.55	- 1.48	- 2.57
8/14	- 0.60	- 1.43	- 2.45
8/15	- 0.45	- 1.37	- 2.55
CHANGE 8/8-8/15 UP 0.02 UP 0.08 DOWN 0.03			
(ALL FIGURES IN CENTS)			

13. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/9	7-9/16	8-1/8	8-9/16
8/10	8-1/16	8-1/4	8-5/8
8/11	8-5/8	8-5/16	8-11/16
8/14	8-1/8	8-3/8	8-3/4
8/15	8-1/16	8-1/2	8-5/8
CHANGE 8/8-8/15 UP 1/16 UP 1/16 UNCHANGED			

14. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL

DATE

8/9	1-7/16	
8/10	1-1/4	
8/11	1-1/16	
8/14	15/16	
8/15	25/32	
CHANGE 8/8-8/15		9/32

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08

FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02

LAB-04 SIL-01 OMB-01 PA-02 NSC-05 SS-15 STR-07

CEA-01 (ISO) W

-----074999 221605Z /50

P R 161722Z AUG 78

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9195

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION GENEVA

USDOC WASHDC

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15. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
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8/9	9-5/8	9-15/32	9-13/32
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8/10	9-17/32	9-5/16	9-5/16
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8/11	9-7/16	9-1/4	9-1/4
8/14	9-3/8	9-5/16	9-11/32
8/15	9-9/32	9-1/4	9-9/32

CHANGE 8/8-8/15 DOWN 11/32 DOWN 1/16 DOWN 1/32

16. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON
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GOVERNMENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
8/9	11.29	12.43	12.69
8/10	11.26	12.41	12.67
8/11	11.28	12.43	12.68
8/14	11.34	12.45	12.70
8/15	11.37	12.44	12.68

CHANGE 8/8-8/15 UP 0.15 UNCHANGED DOWN 0.02

17. THE MINIMUM LENDING RATE REMAINED 10 PERCENT.

18. THE TREASURY BILL RATE FELL 0.0620 PERCENT TO 8.9026 PERCENT AT FRIDAY'S TREASURY BILL AUCTION, AS 584.73 MILLION POUNDS IN BIDS WERE RECEIVED FOR 300 MILLION POUNDS OFFERED. THIS WEEK 300 MILLION POUNDS IN BILLS WILL BE ON OFFER AS 350 MILLION POUNDS MATURE.

BREWSTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON13188
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780342-0251
Format: TEL
From: LONDON USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780860/aaaabxnx.tel
Line Count: 740
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 7af4f662-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 14
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1727488
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD AUGUST 10-16 SUMMARY: IN A CHAOTIC WEEK ON THE FOREIGN EXCHANGE, STERLING MOVED TEMPORARILY ABOVE THE \$2.00 LEVEL . ECO
TAGS: ECON, UK
To: STATE TRSY
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/7af4f662-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014